

Maintaining stability

INTERVIEW WITH DR ERDEM BAŞÇI

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ERDEM BAŞÇI

obtained his PhD in Economics from Bilkent University in 1995, and lectured in economics at Bilkent University until 2003. He has published extensively in leading international academic journals and presented discussion papers at international conferences on monetary economics, financial economics, macroeconomic theory and mathematical economics. He lectured at the University of York, UK as an honorary visiting fellow in 1999. After serving as Deputy Governor of the Central Bank of the Republic of Turkey since 2003, he was appointed Governor of the Central Bank of the Republic of Turkey in April 2011.

What is the key priority of the Central Bank of Turkey and what is the mandate?

The primary objective of the Central Bank of Turkey is price stability. Without prejudice to that, the Central Bank is also asked to support employment and growth objectives of the government. Additionally, Central Bank is obliged to contribute to financial stability as one of its fundamental duties together with other institutions such as the Banking Regulation and Supervision Agency and the Capital Markets Board.

What is your assessment of the country's current economic and financial performance?

Thanks to prudent macroeconomic policies and a healthy financial system the Turkish economy has been among the top performers following the Lehman crisis. In this period, our faster-than-expected economic recovery and relatively low interest rates helped Turkey's fiscal performance, although the current account deficit emerged as a risk to financial stability.

Overall, growth remained robust in the second quarter of 2011. Recent indicators confirm the recovery process is on course. Meanwhile, employment continues to grow rapidly and unemployment rates have come back down to pre-crisis levels.

What economic role do you feel that Turkey can play within the wider region?

Turkey stands to be the largest country in terms of its population and GDP in the region. We are already the 17th-largest economy in the world. Our population of 74 million people, whose average age is 28, provides a demographic window of opportunity, provided that we can introduce the structural changes into our economy and increase the efficiency of both labour and capital. We also have to eliminate inefficiencies and modernize our labour, goods and capital markets. In short, Turkey will act as an economic catalyst for the region.

Do you believe that Istanbul can become a world financial centre?

Healthy financial markets, solid growth prospects and a unique location give Istanbul the potential to be a global financial hub. In addition to these advantages, the current global economic environment gives Istanbul the edge in assuming the role of an international financial centre. Once the aftershocks of the global crisis ease, major

financial players will find Istanbul an attractive location from which to expand their operations in the crossroads of Europe and Asia. The timing of this project is consistent with the desired goal. With its vibrant economy and an appealing low-leverage advantage in comparison to other financial centres, Istanbul emerges as a leading candidate, provided that the project of making Istanbul a financial centre is built on solid foundations.

In order to achieve this goal, it is crucial that necessary lessons are taken from the global crisis and the required financial structure is put in place and sustained. Within this context, having a sound regulatory and supervisory framework is of the utmost importance. Such a regulatory infrastructure should be established in alignment with international regulations and best practices for the development of the new financial architecture. The financial regulatory framework must also be flexible to respond to the changes in the financial system and international financial standards.

Providing all the necessary elements to make Istanbul an international financial centre is a long-term project. Any progress would have positive spill over to other sectors and result in a higher overall productivity and growth potential for the country as well. A successful outcome to this process will make a considerable contribution not only to Istanbul and Turkey, but to the wider region and the globe.

Lastly, is there anything else you wish to communicate to our readers?

A continued commitment to fiscal discipline and structural reform in the medium term will reduce Turkey's sovereign risk, and thus facilitate macroeconomic and price stability. Sustaining fiscal austerity will also provide more flexibility for monetary policy and support social spending by keeping interest rates permanently at low levels. In this respect, timely implementation of the structural reforms envisaged by the Government's new three-year Medium Term Program and the European Union's Acquis Communautaire remain important.

The fiscal rules designed for the eurozone countries are useful benchmarks. The problem evidently arises when there is no will to implement them. Turkey stands out because of the country's successful implementation of European Union rules and proves by way of example that these rules are, if implemented, indeed helpful for improving economic performance. **F**